

P-421/CP-87-506 ORDER REQUIRING REFILED COST STUDIES

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair
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In the Matter of the Petition of
Certain Subscribers in the
Buffalo Exchange for Extended
Area Service to the
Minneapolis/St. Paul
Metropolitan Calling Area

ISSUE DATE: July 31, 1991

DOCKET NO. P-421/CP-87-506

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PROCEDURAL HISTORY

On June 26, 1990, the Commission issued its ORDER AFTER RECONSIDERATION OF JUNE 20, 1989 ORDER IN LIGHT OF MINNESOTA STATUTE § 237.161 (1990) in the consolidated Metro EAS Case, Docket No. P-421, 405, 407, 430, 426, 520, 427/CI-87-76. In its Order, the Commission reviewed 16 pending petitions for Extended Area Service (EAS). Among other things, the Commission found that four exchanges including Buffalo met the adjacency requirement of Minn. Stat. § 237.161 and directed the telephone company providing local service to Buffalo¹, to file traffic studies that would allow the Commission to determine whether the traffic requirement of the new EAS legislation was satisfied. Minn. Stat. § 237.161 (1990)

On August 10, 1990, Northwestern Bell Telephone Company (NWB) filed its traffic study for the Buffalo exchange.

On September 13, 1990, the Commission found that the traffic study for the Buffalo exchange indicated sufficient traffic between the Buffalo exchange and the metropolitan calling area (MCA) to satisfy the EAS statute's traffic criterion and issued an Order requiring NWB and the telephone companies serving the existing MCA to file cost studies and proposed rates for the proposed EAS between the Buffalo exchange and the MCA.

By December 13, 1990, all the affected telephone companies had filed cost studies and proposed rates.

¹ The company providing telephone service to the Buffalo exchange at the time of the June 26, 1990 Order was named Northwestern Bell Telephone Company (NWB) until January 1, 1991 when it became U S West Communications, Inc. (USWC).

On February 27, 1991 and again on April 26, 1991, the Commission granted requests from the Minnesota Department of Public Service (the Department) for additional time to comment on the companies' cost studies and proposed rates.

On May 13, 1991, the Department filed its report and recommendation regarding the companies' cost studies and proposed rates. The Department recommended that the Commission 1) direct the companies to file amended cost studies that assume a zero percent gross receipts tax and use actual traffic data from the last 12 month period; 2) extend the "true-up" mechanism approved in earlier EAS dockets to include the Buffalo exchange; 3) order United Telephone Company (United) to use the intercompany cost apportionment mechanism based on the new traffic study based on 12 months of actual data; and 4) order USWC to apportion some of the EAS revenue requirement to OLMS customers using a specified formula.

On July 16, 1991, the Commission met to consider this matter.

FINDINGS AND CONCLUSIONS

A. New Cost Studies

The Commission finds that the cost studies filed in this matter do not provide an adequate basis for determining EAS rates for the Buffalo exchange. The Commission, therefore, will require the affected telephone companies to file cost studies consistent with this Order.²

1. Traffic Studies: The Basis for Cost Studies

Dependable cost studies require the best possible data regarding traffic volume. Unfortunately, the traffic data used by the companies is inadequate. USWC used a 5% sample of traffic and relied on data that it later acknowledged was flawed. The other telephone companies employed studies in which one month of actual

² The affected telephone companies in this matter are: U S West Communications, Inc. (USWC, formerly Northwestern Bell Telephone Company), Contel of Minnesota d/b/a GTE Minnesota (GTE Minnesota, formerly Contel of Minnesota, Inc.), United Telephone Company (United), Vista Telephone Company of Minnesota, Inc. (Vista, formerly Central Telephone Company), Scott-Rice Telephone Company (Scott-Rice) and Eckles Telephone Company (Eckles). Note that Eckles Telephone Company has recently joined the list of affected telephone companies in this matter. On June 26, 1991, the Commission expanded the metropolitan calling area (MCA) to include New Prague, the exchange served by Eckles. Eckles is, therefore, an affected telephone company in any petition for EAS to the MCA subsequently considered by the Commission.

data or less was multiplied by 12 to generate an annual figure. Moreover, each affected telephone company chose a different time period for conducting its traffic study and applied its own traffic collection techniques.

To correct these deficiencies, the Commission will require the companies to consult with each other and the Department in selecting a dependable and uniform traffic study methodology (including, for example, the same traffic study period) that they will all employ. In seeking dependable traffic projections, the Commission will not require the companies to use 12 months of actual data, as the Department recommends. Twelve months of data is difficult and time consuming to obtain and may not greatly improve the accuracy of current estimates. It is essential, however, that the companies use the same and the best methodology available.

2. Treatment of Other Cost Study Issues

a. Gross Receipts Tax

Since the Commission has not adopted the Department's recommendation that the cost studies assume a zero percent gross receipts tax, the cost studies should assume the level of gross receipts tax that the companies experience under the current gross receipts tax statute. This treatment will be consistent with what the Commission has prescribed in previous EAS cases.

b. Recent Additions to the Metropolitan Calling Area

The cost studies will be further improved by taking into account the fact that four exchanges have been recently added to the metropolitan calling area: Belle Plaine, Cologne, Waconia, and New Prague. Because the expansion of the MCA to include these four exchanges is known at this time, there is no need to postpone factoring in this impact on rates until the Commission's true-up hearing regarding the Belle Plaine, Cologne, Waconia, and New Prague exchanges, as the Department has recommended. The companies can adjust their cost studies to reflect projected loss of access contribution and cost savings from the addition of Buffalo to a metropolitan calling area that includes these four exchanges at this time and should do so.

B. Allocation of EAS Costs to Local Measured Service (LMS)

USWC offers optional local measured service (OLMS) to its subscribers in the Buffalo exchange. In its original filing in this matter, USWC proposed no change in its OLMS rates for Buffalo if Buffalo gains EAS to the MCA. The Department objected to this because, among other reasons, it would result in an unnecessarily high EAS additive for flat rate subscribers and would be inconsistent with previous Commission treatment of the impact of EAS on OLMS rates.

The Commission agrees with the Department and will require USWC to recover a reasonable portion of the cost of providing EAS between Buffalo and the MCA by increasing the OLMS rate. Raising the OLMS rate is equitable because OLMS subscribers will benefit from the inclusion of Buffalo in the MCA. OLMS calls to the MCA will be less expensive than the current toll rates and property values in the petitioning exchange will increase with the ability to place a local call to the MCA.

A second issue is how much of the OLMS EAS additive should be recovered through the OLMS access charge and how much recovered through the OLMS usage charge. The Commission has previously analyzed this question and expressed its preference to recover the major portion of the EAS costs attributed to OLMS customers through the OLMS usage charges to preserve OLMS as a viable money-saving alternative for low use subscribers. See ORDER ADOPTING GUIDELINES FOR EXTENDED AREA SERVICE RATES FOR THE WACONIA, MAYER, COLOGNE, AND NORWOOD EXCHANGES AND VARYING TIME FOR FILING FOR RECONSIDERATION, Docket Nos. P-430, 421/CP-86-5; P-407, 421, 430, 405, 426/CP-88-839; P-430, 421, 407, 405, 426/CI-90-441; P-430, 421, 407, 405, 426/CI-90-442 (February 1, 1991), pages 10-13.

On June 21, 1991, USWC filed a methodology for developing new OLMS rates for Buffalo. As amended on July 16, 1991, this methodology appears to reflect the Commission's policy choices in this area. The Commission, therefore, will direct USWC to use this methodology to calculate changes in Buffalo's OLMS rates due to EAS and to propose the resulting rates when it files its amended cost studies and other proposed EAS rates in this matter.

ORDER

1. Within 45 days of this Order, the affected telephone companies in this matter shall
 - a. consult with each other and the Minnesota Department of Public Service (the Department) to develop a reliable and uniform traffic study methodology,
 - b. develop traffic projections using the traffic study methodology developed pursuant to Ordering Paragraph 1 (a), and
 - c. refile cost studies with the Commission and the Department that
 - 1) are based on the new traffic projections developed pursuant to Ordering Paragraph 1 (a) and (b);
 - 2) take into account the inclusion in the metropolitan calling area of the Belle Plaine, Cologne, Waconia, and New Prague exchanges; and

- 3) assume a gross receipts tax at the level required under the current gross receipts tax statute.

The affected telephone companies in this matter are as follows: Contel of Minnesota, Inc. d/b/a GTE Minnesota (formerly Contel of Minnesota, Inc.), U S West Communications, Inc., Vista Telephone Company of Minnesota, Inc. (formerly Central Telephone Company), United Telephone Company, Scott-Rice Telephone Company, and Eckles Telephone Company.

2. When it refiles its cost study pursuant to Ordering Paragraph 1 of this Order, U S West Communications, Inc. shall also file proposed EAS rates for the Buffalo exchange that include changes in the optional local measured service (OLMS) rates consistent with this Order and based on the methodology it filed June 21, 1991 and amended July 16, 1991.
3. Within 45 days after the filing of the affected companies' cost studies and proposed rates pursuant to Ordering Paragraph 1, the Department shall file its report and recommendations on the cost studies and proposed rates. The Department's report shall indicate whether the cost studies meet the minimum requirements of Minn. Stat. § 237.161 (1990).
4. Within 20 days after the Department's filing required by Ordering Paragraph 3, any interested party may file comments.
5. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

(S E A L)